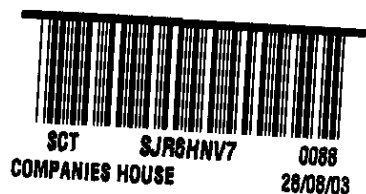


The Edinburgh Woollen Mill Limited

Annual Report and Financial Statements

Year ended 1 March 2003

Registered Number : 24081



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The Edinburgh Woollen Mill Limited

DIRECTORY

DIRECTORS

Philip Day
David Houston
Alec Whitaker

SECRETARY

June Carruthers

AUDITORS

Ernst & Young LLP
George House
50 George Square
Glasgow
G2 1RR

BANKERS

Bank of Scotland
The Mound
Edinburgh
EH1 1YZ

Girobank plc
Bridle Road
Bootle
Merseyside
GIR 0AA

SOLICITORS

Shepherd & Wedderburn
Saltire Court
20 Castle Terrace
Edinburgh

DLA
Napier House
27 Thistle Street
Edinburgh

Burnetts
6 Victoria Place
Carlisle

Brabners Chaffe Street
1 Dale Street
Liverpool

REGISTERED OFFICE

Waverley Mills
Langholm
Dumfriesshire
DG13 0EB

The Edinburgh Woollen Mill Limited

DIRECTORS' REPORT

The directors present their annual report and financial statements for the year ended 1 March 2003.

PRINCIPAL ACTIVITIES

The principal activities of the company are the retailing of ladies and gents wear as well as gifts within primarily the High Street and Tourist retailing markets. The company has a high degree of expertise in the design and sourcing of woollen and other natural fibre based products, although its knowledge and expertise applies to many other related products.

REVIEW OF BUSINESS AND FUTURE DEVELOPMENTS

On 15 November 2002, the group of which The Edinburgh Woollen Mill Limited consists was acquired by The Edinburgh Woollen Mill (Group) Limited, a company created for the purpose.

The company continues to operate in two main markets being the High Street, where it caters for the 50+ customer and is very strongly positioned with a loyal customer base, and the Tourist retailing market where it is pre-eminent in many parts of the UK and in particular Scotland.

The Profit on Ordinary Activities prior to exceptional items at £10,636,000, was very similar on a like for like basis with the previous year which was a 56 week period. This was a good result given that the previous year had enjoyed particularly buoyant conditions within the High Street business which was not the case throughout the current year.

The business initiated a number of new developments in the previous year including the creation of a national distribution centre at Kingmoor Park, Carlisle which is now fully operational and deriving benefits in terms of cost and service levels, the launching of an updated brand for The Edinburgh Woollen Mill Limited, which continues to be rolled out, giving greater clarity to the brand and ensuring our customers identify ever more clearly with the quality and consistency that the brand represents and the launching of a Loyalty card which had in excess of 200,000 members at the year end.

These initiatives as well as the continuing determination to improve the quality of our products through more consistent sourcing and high quality of production within our own factories, has allowed the business to continue to thrive in an extremely difficult business environment.

The plan for the forthcoming year is more of the same with moderate growth in the number of stores within the High Street division, new exciting contemporary product and high levels of customer service and care.

The prospects for the company are very encouraging and with our focus on the customer, the directors are confident that the forthcoming year will see improved results in the business.

RESULTS AND DIVIDENDS

The profit for the year, after taxation, amounted to £3,970,000. An interim dividend of £5,250,000 was paid to EWM Holdings Limited on 24 July 2002. A further interim dividend of £1,250,776 was paid to EWM Holdings Limited on 14 November 2002. The directors recommend a final dividend amounting to £1,200,000, making the total dividend for the year £7,700,776.

The directors recommend that the deficit for the period of £3,731,000 be transferred to reserves.

The Edinburgh Woollen Mill Limited

DIRECTORS' REPORT

EMPLOYEES

The directors are committed to developing genuine and effective employee involvement in the company's activities. It is recognised that training and development is an essential investment which receives a high priority and, together with regular information to employees, results in a high degree of loyalty and commitment being given.

Key areas are:

- regular quarterly team briefings involving all levels of staff;
- annual performance appraisals for all levels of staff;
- the in-house magazine distributed to all employees and pensioners describing developments in the company;

The company gives full and fair consideration to all applications for employment having regard to each applicant's aptitude and ability for the position available. Physical disability is not a bar either to the provision of training for career development, or to promotion which is encouraged wherever possible.

An increasing emphasis is placed on employee development and in particular improving their awareness of the importance of the customer whether internal or external to the company.

DIRECTORS AND THEIR INTERESTS

The directors who held office during the year were as follows:

P E Day
D O Houston
A Whitaker
P I Cartwright (resigned 15 November 2002)
A Docherty (resigned 15 November 2002)
D A Light (resigned 25 February 2003)

No director serving at the year end has any interest in the share capital of the company. Directors' interests in the share capital of the ultimate holding company The Edinburgh Woollen Mill (Group) Limited are disclosed in that company's financial statements.

AUDITORS

The auditors, Ernst & Young LLP, have indicated their willingness to continue in office, and a resolution concerning their reappointment will be proposed at the Annual General Meeting.

By order of the board



J Carruthers
Secretary

13 August 2003

The Edinburgh Woollen Mill Limited

STATEMENT OF DIRECTORS' RESPONSIBILITIES

Company law requires the directors to prepare financial statements for each financial year which give a true and fair view of the state of affairs of the company and of the profit or loss of the company for that period. In preparing those financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- state whether applicable accounting standards have been followed, subject to any material departures disclosed and explained in the financial statements; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the company will continue in business.

The directors are responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the company and to enable them to ensure that the financial statements comply with the Companies Act 1985. They are also responsible for safeguarding the assets of the company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF THE EDINBURGH WOOLLEN MILL LIMITED

We have audited the company's financial statements for the year ended 1 March 2003 which comprise the Profit and Loss Account, Balance Sheet and the related notes 1 to 23. These financial statements have been prepared on the basis of the accounting policies set out therein.

This report is made solely to the company's members, as a body, in accordance with Section 235 of the Companies Act 1985. Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an auditors' report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of directors and auditors

As described in the Statement of Directors' Responsibilities the company's directors are responsible for the preparation of the financial statements in accordance with applicable United Kingdom law and accounting standards.

Our responsibility is to audit the financial statements in accordance with relevant legal and regulatory requirements, and United Kingdom Auditing Standards.

We report to you our opinion as to whether the financial statements give a true and fair view and are properly prepared in accordance with the Companies Act 1985. We also report to you if, in our opinion, the Directors' Report is not consistent with the financial statements, if the company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law regarding directors' remuneration and transactions with the company is not disclosed.

We read the Directors' Report and consider the implications for our report if we become aware of any apparent misstatements within it.

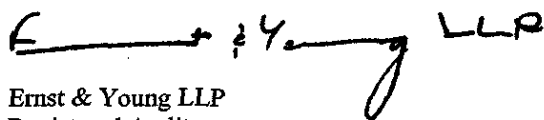
Basis of audit opinion

We conducted our audit in accordance with United Kingdom Auditing Standards issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgements made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the company's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements.

Opinion

In our opinion the financial statements give a true and fair view of the state of affairs of the company as at 1 March 2003, and of the profit for the period then ended and have been properly prepared in accordance with the Companies Act 1985.


Ernst & Young LLP
Registered Auditor
Glasgow

13 August 2003

The Edinburgh Woollen Mill Limited

PROFIT AND LOSS ACCOUNT

For the Year Ended 1 March 2003

		<i>Continuing Operations 2002/03 52 Weeks £000</i>	<i>Exceptional Costs 2002/03 52 Weeks £000</i>	<i>Total 2002/03 52 Weeks £000</i>	<i>Continuing Operations 2001/02 56 Weeks £000</i>	<i>Exceptional Costs 2001/02 56 Weeks £000</i>	<i>Total 2001/02 56 Weeks £000</i>
	<i>Notes</i>						
TURNOVER		152,128	-	152,128	169,651	-	169,651
Cost of Sales		(133,516)	(3,468)	(136,984)	(149,139)	(4,209)	(153,348)
GROSS PROFIT		18,612	(3,468)	15,144	20,512	(4,209)	16,303
Distribution costs		(3,637)	-	(3,637)	(3,400)	-	(3,400)
Administrative Expenses		(4,331)	(532)	(4,863)	(4,403)	(1,780)	(6,183)
OPERATING PROFIT / (LOSS)		10,644	(4,000)	6,644	12,709	(5,989)	6,720
(Loss)/Profit on sale of tangible fixed assets		(30)	-	(30)	(13)	4,666	4,653
Net interest receivable/(payable) and similar charges	2	22	-	22	(197)	-	(197)
PROFIT/(LOSS) ON ORDINARY ACTIVITIES BEFORE TAXATION	3	10,636	(4,000)	6,636	12,499	(1,323)	11,176
Tax on profit on ordinary activities	6			(2,666)			(2,609)
PROFIT FOR THE FINANCIAL PERIOD				3,970			8,567
Dividends on equity shares	7			(7,701)			(13,334)
DEFICIT FOR THE FINANCIAL PERIOD	17			(3,731)			(4,767)

Other than the deficit for each financial period, there were no other recognised gains or losses.

The Edinburgh Woollen Mill Limited

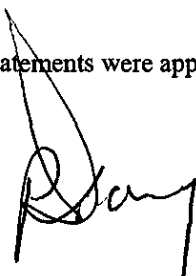
BALANCE SHEET

At 1 March 2003

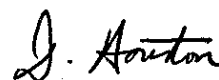
	Notes	1 March 2003 £000	2 March 2002 £000
FIXED ASSETS			
Tangible assets	8	15,281	16,432
Investments	9	9,109	9,109
		<u>24,390</u>	<u>25,541</u>
CURRENT ASSETS			
Stocks	10	26,286	26,519
Debtors	11	4,063	4,393
Cash at bank and in hand		4,810	1,366
		<u>35,159</u>	<u>32,278</u>
CREDITORS: amounts falling due within one year	12	(17,691)	(13,871)
NET CURRENT ASSETS		<u>17,468</u>	<u>18,407</u>
TOTAL ASSETS LESS CURRENT LIABILITIES		41,858	43,948
CREDITORS: amounts falling due after more than one year	13	(3,345)	(3,339)
		<u>38,513</u>	<u>40,609</u>
PROVISIONS FOR LIABILITIES AND CHARGES	14	(5,234)	(3,424)
DEFERRED INCOME			
Capital contributions	15	(349)	(524)
NET ASSETS		<u>32,930</u>	<u>36,661</u>
CAPITAL AND RESERVES			
Called up share capital	16	1,828	1,828
Share premium account	17	4,199	4,199
Capital redemption reserve	17	5,050	5,050
Merger reserve	17	4,833	4,833
Profit and loss account	17	17,020	20,751
EQUITY SHAREHOLDERS FUNDS		<u>32,930</u>	<u>36,661</u>

These financial statements were approved by the board of directors on 13 August 2003 and were signed on its behalf by:

Philip Day
Director



David Houston
Director



The Edinburgh Woollen Mill Limited

NOTES TO THE FINANCIAL STATEMENTS

At 1 March 2003

1. ACCOUNTING POLICIES

Basis of preparation of accounts

The financial statements have been prepared under the historical cost convention and in accordance with applicable accounting standards.

The company is exempt from the requirement of Financial Reporting Standard No. 1 (Revised) to prepare a cash flow statement as it is a wholly owned subsidiary of The Edinburgh Woollen Mill (Group) Limited and its cash flows are included within the consolidated cash flows of that company.

By virtue of S.228 Companies Act 1985 consolidated financial statements have not been prepared as the company is a wholly owned subsidiary of The Edinburgh Woollen Mill (Group) Limited and as such these financial statements contain information about the company and not about its group.

Financial year

These financial statements are drawn up for a period of 52 weeks ended on 1 March 2003 and the comparative figures stated are in respect of a period of 56 weeks ended on 2 March 2002.

Turnover and cost of sales

Turnover represents goods and services supplied net of value added tax. Cost of sales includes the cost of goods sold, together with shop running expenses and other direct costs. All turnover derives from continuing activities.

Depreciation

Depreciation is provided to write off the cost of tangible fixed assets, other than freehold land, by equal annual instalments over their estimated useful economic lives at rates set out below.

Freehold buildings	2% per annum
Long leasehold buildings	2% per annum
Short leasehold buildings	10% per annum or over the lease term if shorter
Building improvements	5% or 12.5% per annum
Plant and machinery	8.33%, 12.5% or 25% per annum
Motor vehicles	- commercial vehicles 12.5% per annum
	- cars and vans 25% per annum
Tenants improvements and shopfittings	12.5% or 25% per annum

Deferred income - Government grants

Capital related grants are released to profit and loss account over the estimated life of the assets to which the grant relates.

Employment related grants are released to profit and loss account over the period to which the employment costs relate.

The Edinburgh Woollen Mill Limited

NOTES TO THE FINANCIAL STATEMENTS

At 1 March 2003

1. ACCOUNTING POLICIES (CONTINUED)

Deferred income - Capital contributions/Reverse Premiums

Capital sums received from landlords as inducements to enter into lease agreements are credited to deferred income and amortised to profit and loss account over the period to the next rent review or the lease term, whichever is shorter.

Stocks

Stocks are valued at the lower of cost and net realisable value. Cost comprises the invoice price of goods purchased. Work in progress includes costs appropriate to the stage of manufacture. Net realisable value is based on estimated selling price less all further costs to completion and all costs to be incurred in marketing, selling and distribution.

Deferred Taxation

Deferred tax is recognised in respect of all timing differences that have originated but not reversed at the balance sheet date where transactions or events that result in an obligation to pay more tax in future or a right to pay less tax in future have occurred at the balance sheet date. This is subject to deferred tax assets only being recognised if it is considered more likely than not that there will be suitable profits from which the future reversal of the underlying timing differences can be deducted. Timing differences are differences arising between the company's taxable profits and its results as stated in the financial statements which are capable of reversal in one or more subsequent periods.

Deferred tax is measured on a non-discounted basis at the tax rates that are expected to apply in the periods in which timing differences are expected to reverse, based on tax rates and laws enacted or substantively enacted at the balance sheet date.

Operating leases

Operating lease rentals are charged to profit and loss account on an annual basis over the period of the lease.

Pension costs

The company operates a defined benefit pension scheme and a defined contribution pension scheme. The assets of the schemes are held separately from those of the company. Contributions to the defined benefit scheme are charged to profit and loss account so as to spread the cost of pensions over the average remaining service lives of employees of the company. Differences between the amounts funded and the amounts charged to the profit and loss account are treated as either provisions or prepayments in the balance sheet. Contributions to the defined contribution scheme are charged to profit and loss account as incurred.

Foreign currencies

Assets and liabilities denominated in foreign currencies are translated into sterling at exchange rates ruling at the balance sheet date. Transactions in foreign currencies are recorded at the rate ruling at the date of the transaction or at the contracted rate if the transaction is covered by a forward exchange contract. Gains or losses on exchange are taken to profit and loss account.

The Edinburgh Woollen Mill Limited

NOTES TO THE FINANCIAL STATEMENTS

At 1 March 2003

1. ACCOUNTING POLICIES (CONTINUED)

Derivative Instruments

The group utilises forward currency contracts to minimise its exposure to the fluctuation in foreign exchange rates. The group also uses interest rate swaps to avoid any potential volatility in interest rate movements.

Forward foreign currency contracts

The criterion adopted for the use of foreign currency contracts are:

- The contract must be in relation to a quantifiable foreign currency asset or liability.
- The contract must be denominated in the same currency as the asset or liability.
- It should demonstrably reduce the risk of foreign exchange movements on the group's operations.

Interest rate swaps

The group's criteria for utilising interest rate swaps are:

- The contract must be directly attributable to a quantifiable asset or liability.
- It requires to convert the nature of the interest rate from a variable rate to a fixed rate or vice versa.

2. NET INTEREST (RECEIVABLE)/PAYABLE AND SIMILAR CHARGES

	2002/03 52 Weeks £000	2001/02 56 Weeks £000
Interest payable on group borrowings	-	240
Interest payable on bank borrowings	476	324
Interest receivable on bank balances	(481)	(304)
Interest receivable on group balances	(17)	(63)
	—	—
	(22)	197
	=	=

3. PROFIT ON ORDINARY ACTIVITIES BEFORE TAXATION

Profit on ordinary activities before taxation is stated after charging / (crediting):

	2002/03 52 Weeks £000	2001/02 56 Weeks £000
Depreciation of tangible fixed assets – owned	3,983	4,434
Rent receivable	(546)	(499)
Capital contributions released	(208)	(297)
Auditors' remuneration – audit fees and expenses	38	53
Auditors' remuneration – non audit services	(13)	121
(Profit) / loss on sale of tangible fixed assets	(30)	(4,666)
- exceptional	-	13
- other	-	-
Operating leases	15,281	15,013
- property	-	-
- plant and machinery	600	634
Exceptional costs – cost of sales	-	-
- provision for impairment of tangible fixed assets (note 8)	504	1,079
- provision for environmental costs (note 14)	(57)	1,437
- provision for exceptional dilapidations (note 14)	17	1,178
- provision for impairment of stocks	115	413
- other impairment provisions	89	102
- provision for pension scheme deficit (note 14)	2,800	-
Exceptional costs – administrative expenses	-	-
- supply chain costs	-	1,480
- provision for impairment of amount due from subsidiary undertaking	203	300
- exit costs from subsidiary undertaking	329	-
	=	=

The Edinburgh Woollen Mill Limited
NOTES TO THE FINANCIAL STATEMENTS

At 1 March 2003

4. DIRECTORS' EMOLUMENTS

	<i>2002/03 52 Weeks £000</i>	<i>2001/02 56 Weeks £000</i>
Aggregate emoluments	1,475	706
	<u> </u>	<u> </u>
	<i>2002/03 No.</i>	<i>2001/02 No.</i>
Members of defined benefit pension schemes	4	5
	<u> </u>	<u> </u>
	<i>2002/03 52 Weeks £000</i>	<i>2001/02 56 Weeks £000</i>
Highest paid director		
Total amount of emoluments	776	325
	<u> </u>	<u> </u>
	<i>2002/03 52 Weeks £000</i>	<i>2001/02 56 Weeks £000</i>
Defined benefit pension scheme:		
Accrued pension at end of year	5	7
	<u> </u>	<u> </u>

Executive bonuses are dependent on the achievement of financial targets and the performance of individual directors. Payments are made according to the rules of the company's senior management bonus scheme, or in exceptional circumstances at the discretion of the Remuneration Committee.

During the year three directors were granted the right to acquire shares in the then ultimate parent company EWM Group Limited along with a number of other senior employees, via an Employee Benefit Trust established for the purpose.

5. STAFF COSTS

	<i>2002/03 52 Weeks £000</i>	<i>2001/02 56 Weeks £000</i>
Wages and salaries	25,525	26,133
Social security costs	1,514	1,703
Other pension costs	645	705
	<u> </u>	<u> </u>
	27,684	28,541
	<u> </u>	<u> </u>

The average number of persons employed by the company during the period, all of whom were employed directly in retail or support associated activities, were as follows:

	<i>2002/03 52 Weeks Number of employees</i>	<i>2001/02 56 Weeks Number of employees</i>
Shops	2,761	2,787
Central	378	410
	<u> </u>	<u> </u>
	3,139	3,197
	<u> </u>	<u> </u>

The Edinburgh Woollen Mill Limited
NOTES TO THE FINANCIAL STATEMENTS

At 1 March 2003

6. TAX ON PROFIT ON ORDINARY SHARES

a. Analysis of charge for the period

	<i>2002/03 52 Weeks £000</i>	<i>2002/03 52 Weeks £000</i>	<i>2001/02 56 Weeks £000</i>	<i>2001/02 56 Weeks £000</i>
Current tax				
UK corporation tax on profits of the period	3,373		2,831	
Adjustments in respect of previous periods	(111)		44	
Total current tax		3,262		2,875
Deferred tax				
Origination and reversal of timing differences	(560)		(242)	
Adjustments in respect of previous periods	(36)		(24)	
Total deferred tax		(596)		(266)
		2,666		2,609

b. Factors affecting the tax charge for the period

	<i>2002/03 52 Weeks £000</i>	<i>2001/02 56 Weeks £000</i>
Profit on ordinary activities before taxation	6,636	11,176
Profit on ordinary activities multiplied by the standard rate of corporation tax in the UK of 30%	1,991	3,353
Depreciation in excess of capital allowances	131	200
Disallowable expenses and non-taxable income	350	(764)
Adjustments to tax charge in respect of previous periods	(111)	44
Short term timing differences	901	42
	3,262	2,875

The tax charge in respect of the exceptional profit on sale of tangible fixed assets is £Nil.

c. Factors that may affect future tax charges

As the company has not accounted for the potential deferred tax asset in note 14, any reversal of these timing differences will reduce the future tax charge.

The Edinburgh Woollen Mill Limited

NOTES TO THE FINANCIAL STATEMENTS

At 1 March 2003

7. DIVIDENDS

	2002/03 52 Weeks £000	2001/02 56 Weeks £000
Ordinary shares - interim paid	6,501	13,334
- final proposed	1,200	-
Dividends to equity shareholders	7,701	13,334

8. TANGIBLE FIXED ASSETS

	Land and Buildings £000	Plant and Machinery £000	Motor Vehicles £000	Tenants' Improvements, Shopfittings £000	Total £000
Cost					
At 3 March 2002	7,823	800	1,618	36,582	46,823
Additions	523	666	70	2,270	3,529
Disposals	(137)	(226)	(412)	(186)	(961)
Reclassifications	168	113	-	(281)	-
At 1 March 2003	8,377	1,353	1,276	38,385	49,391
Aggregate depreciation					
At 3 March 2002	3,766	432	1,117	25,076	30,391
Provision for impairment	-	-	-	504	504
Charge for period	375	61	173	3,374	3,983
Disposals	(92)	(201)	(328)	(147)	(768)
At 1 March 2003	4,049	292	962	28,807	34,110
Net book value					
At 1 March 2003	4,328	1,061	314	9,578	15,281
At 2 March 2002	4,057	368	501	11,506	16,432

On 15 November 2002 the directors reviewed the value of tangible fixed assets and made an appropriate provision for impairment.

The net book value of land and buildings consists of:

	1 March 2003 £000	2 March 2002 £000
Freehold land	111	111
Freehold buildings	2,492	2,569
Leasehold - long	243	263
- short	1,482	1,114
	4,328	4,057

The net book value of land and buildings includes £111,000 of land (2002 - £111,000) not subject to depreciation.

The Edinburgh Woollen Mill Limited

NOTES TO THE FINANCIAL STATEMENTS

At 1 March 2003

9. INVESTMENTS

	<i>Cost</i> <i>£000</i>	<i>Provisions</i> <i>£000</i>	<i>Total</i> <i>£000</i>
<i>Subsidiary undertakings</i>			
At 3 March 2002 and 1 March 2003	16,252	(7,143)	9,109

Details of the principal operating companies where the company (unless indicated) holds 20% or more of the nominal value of any class of share capital are as follows:

	<i>Country of Incorporation or Registration</i>	<i>Proportion of Voting Rights & Ordinary Shares Held</i>	<i>Nature of Business</i>
*The Heather Mills Company Ltd	Scotland	100%	Woollen & Garment Manufacturer
*Gibson & Lumgair (Scotland) Ltd	Scotland	100%	Woollen Textile Merchant
*Mackinnon of Scotland Ltd	Scotland	100%	Knitwear Manufacturer
EWM (Financial Services) Ltd	Scotland	100%	Financial Services Company

* Owned by a subsidiary

Gibson and Lumgair (Scotland) Ltd also has a non equity minority interest in respect of its preference shares of £150,000.

10. STOCKS

	<i>1 March 2003 £000</i>	<i>2 March 2002 £000</i>
Raw materials	566	1,815
Work in progress	3	1
Finished goods	25,717	24,703
	<u>26,286</u>	<u>26,519</u>

11. DEBTORS

	<i>1 March 2003 £000</i>	<i>2 March 2002 £000</i>
Trade debtors	423	63
Prepayments and accrued income	2,648	2,066
Amounts owed by fellow subsidiary undertakings	992	2,264
	<u>4,063</u>	<u>4,393</u>

The Edinburgh Woollen Mill Limited
NOTES TO THE FINANCIAL STATEMENTS

At 1 March 2003

12. CREDITORS: amounts falling due within one year

	<i>1 March 2003 £000</i>	<i>2 March 2002 £000</i>
Bank overdraft (note 22)	-	2,970
Trade creditors	4,893	3,532
Corporation tax	1,277	487
Social security and other taxes including VAT	3,331	1,243
Other creditors and accruals	5,642	4,773
Amounts owed to fellow subsidiary undertakings	802	318
Amounts owed to parent company	546	548
Proposed final dividend	1,200	-
	<u>17,691</u>	<u>13,871</u>

13. CREDITORS: amounts falling due after more than one year

	<i>1 March 2003 £000</i>	<i>2 March 2002 £000</i>
Amounts owed to subsidiary undertakings	2,976	3,015
Amounts owed to fellow subsidiary undertakings	369	324
	<u>3,345</u>	<u>3,339</u>

14. PROVISIONS FOR LIABILITIES AND CHARGES

	<i>Pension Deficit Provision £000</i>	<i>Environmental Cost Provision £000</i>	<i>Dilapidations Provision £000</i>	<i>Deferred Taxation £000</i>	<i>Total £000</i>
At 3 March 2002	-	1,437	1,391	596	3,424
Arising during the period					
- exceptional	2,800	-	17	-	2,817
- other	-	-	9	-	9
Utilised	-	(149)	(168)	-	(317)
Amounts no longer required					
- exceptional	-	(57)	-	-	(57)
- other	-	-	(46)	(596)	(642)
At 1 March 2003	<u>2,800</u>	<u>1,231</u>	<u>1,203</u>	<u>-</u>	<u>5,234</u>

14. PROVISIONS FOR LIABILITIES AND CHARGES (CONTINUED)

Pension Deficit Provision

A provision was recognised to reflect an 82% funding level in the Defined Benefit Scheme on an 'ongoing' valuation basis as estimated by the company's actuarial advisor. Such a provision is recognised at the point when the funding deficit is material and appears unlikely to reverse in the foreseeable future.

Dilapidations Provision

A provision is recognised for repairing obligations arising under the terms of operating lease agreements. Provision is made where repairs are required and a schedule of dilapidations has been served by the landlord, or where there is a present obligation as a result of a past event and it is probable that a transfer of economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. It is expected that these costs will be incurred within two years of the balance sheet date.

Environmental Costs Provision

A provision is recognised for the expected costs of carrying out environmental surveys as required by statute together with a provision for expected remedial costs. It is expected that these costs will be incurred within two years of the balance sheet date.

Deferred Taxation

Deferred taxation provided in the financial statements and the amounts not provided are as follows:

	<i>Not Provided</i>		<i>Provided</i>	
	<i>1 March</i>	<i>2 March</i>	<i>1 March</i>	<i>2 March</i>
	<i>2003</i>	<i>2002</i>	<i>2003</i>	<i>2002</i>
	<i>£000</i>	<i>£000</i>	<i>£000</i>	<i>£000</i>
Accelerated capital allowances	-	-	764	658
Other timing differences	(471)	-	(764)	(62)
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Net deferred tax liability (asset)	(471)	-	-	596
	<u> </u>	<u> </u>	<u> </u>	<u> </u>

The company does not account for net deferred tax assets unless it is considered more likely than not that they will crystallise in the near future.

15. DEFERRED INCOME

Capital contributions

	<i>1 March</i>	<i>2 March</i>
	<i>2003</i>	<i>2002</i>
	<i>£000</i>	<i>£000</i>
At 3 March 2002	524	781
Capital contributions received in year	33	40
Released to profit and loss account	(208)	(297)
	<u> </u>	<u> </u>
At 1 March 2003	349	524
	<u> </u>	<u> </u>

The Edinburgh Woollen Mill Limited

NOTES TO THE FINANCIAL STATEMENTS

At 1 March 2003

16. SHARE CAPITAL

	<i>1 March 2003 No.</i>	<i>2 March 2002 No.</i>
Authorised		
'A' ordinary shares of 5p each	30,000,000	30,000,000
'B' ordinary shares of 5p each	10,000,000	10,000,000
	<i>£000</i>	<i>£000</i>
Authorised		
'A' ordinary shares of 5p each	1,500	1,500
'B' ordinary shares of 5p each	500	500
	<u>2,000</u>	<u>2,000</u>
	<i>1 March 2003 No.</i>	<i>2 March 2002 No.</i>
Allotted, called up and fully paid		
'A' ordinary shares of 5p each	27,572,626	27,572,626
'B' ordinary shares of 5p each	8,999,770	8,999,770
	<i>£000</i>	<i>£000</i>
Allotted, called up and fully paid		
'A' ordinary shares of 5p each	1,378	1,378
'B' ordinary shares of 5p each	450	450
	<u>1,828</u>	<u>1,828</u>

17. RESERVES AND RECONCILIATION OF MOVEMENTS IN SHAREHOLDERS' FUNDS

	<i>Share capital £000</i>	<i>Share premium £000</i>	<i>Capital redemption reserve £000</i>	<i>Merger reserve £000</i>	<i>Profit and loss account £000</i>	<i>1 March 2003 Total £000</i>	<i>2 March 2002 Total £000</i>
At beginning of year	1,828	4,199	5,050	4,833	20,751	36,661	41,428
Deficit for the period	-	-	-	-	(3,731)	(3,731)	(4,767)
	<u>1,828</u>	<u>4,199</u>	<u>5,050</u>	<u>4,833</u>	<u>17,020</u>	<u>32,930</u>	<u>36,661</u>

The Edinburgh Woollen Mill Limited

NOTES TO THE FINANCIAL STATEMENTS

At 1 March 2003

18. CAPITAL COMMITMENTS

	<i>1 March 2003 £000</i>	<i>2 March 2002 £000</i>
Amounts contracted for but not provided in the accounts	64	16

19. OPERATING LEASE COMMITMENTS

Annual commitments under non-cancellable operating leases are as follows:

	<i>1 March 2003</i>		<i>2 March 2002</i>	
	<i>£000 Property</i>	<i>£000 Other</i>	<i>£000 Property</i>	<i>£000 Other</i>
Leases which expire:				
Within one year	838	64	338	73
Between two and five years	1,940	403	2,315	376
In five years or more	12,419	-	11,628	-
	<u>15,197</u>	<u>467</u>	<u>14,281</u>	<u>449</u>

20. RELATED PARTY TRANSACTIONS

During the year the company sold stock to the value of £387,000 to Prima Clothing Limited, a company controlled by David Light, at that time a director of The Edinburgh Woollen Mill Limited.

The sales conducted between the two companies was on a commercial basis and involved product which The Edinburgh Woollen Mill Limited management felt was best sold to a third party more specialised in that area of retailing and in order to avoid future stock ageing problems arising to the company's detriment. At 1 March 2003 there was £125,000 of this debt unpaid, but it has been fully repaid subsequent to the year end.

David Light ceased to be a director of The Edinburgh Woollen Mill Limited on 25 February 2003 and ceased to be an employee of the company on 28 February 2003.

21. PENSION COMMITMENTS

The company operates defined benefits and defined contribution pension schemes. The company continues to account for pensions in accordance with SSAP 24 whilst also making certain disclosures that are required under the transitional arrangements for FRS 17 'Retirement Benefits'.

(a) SSAP 24 disclosures

Defined Benefit Scheme

The assets of the defined benefit pension scheme are held in separate trustee administered funds. An actuarial valuation of the company's defined benefit scheme was carried out at 5 April 2000 using the projected unit method for the open sections of the scheme and the attained age method for the closed sections. The assumptions which had the most significant effect on the pension cost are set out below.

Investment return	7.0%pa
Rate of increase in pensionable salaries	
- open sections	5.5%pa
- closed sections	4.0%pa
LPI pension increases	3.0%pa
Rate of price inflation	3.0%pa

At the date of the last valuation in April 2000 the market value of the scheme's assets was £17,989,000 and the actuarial value of those assets represented 127% of the benefits that had accrued to members after allowing for expected future increases in earnings.

The defined benefit scheme provides benefits based on final pensionable salary for directors and certain other management employees. During the year the scheme was however closed to new entrants as determined by the directors of the company.

Contributions to the scheme, which are determined by a qualified actuary in conjunction with the directors and based upon triennial valuations, using a combination of the projected unit method and the attained age method, are charged to profit and loss account in line with Statement of Standard Accounting Practice number 24 'Accounting for Pension costs', whereby the cost of providing pensions are recognised over the period benefiting from the employees' services, with any material difference between the charge to the profit and loss account and the contributions paid to the scheme being shown as an asset or liability in the balance sheet.

Allowing for the amortisation of the above surplus over a 12 year period from the valuation date results in a variation to the regular pension cost of 7.8% of earnings, giving a net pension cost of 8.7% of earnings.

During the year as a result of deteriorating investment conditions, the independent actuary estimated that the pension scheme deficit as at 15 November 2002 amounted to £2,800,000 and this was recognised as an exceptional charge to profit (note 3).

Defined Contribution Scheme

The defined contribution scheme provides money purchase benefits for other employees of the company based on the accumulated contributions paid on behalf of each member. This now also includes employees who prior to the closure of entry to the defined benefit scheme would have been eligible for entry into that scheme.

The unpaid contributions outstanding at the year end, included in 'Other creditors and accruals' (note 12), was £62,283 (2002 - £53,795).

The Edinburgh Woollen Mill Limited
NOTES TO THE FINANCIAL STATEMENTS

At 1 March 2003

21. PENSION COMMITMENTS (CONTINUED)

(b) FRS17 Disclosures

The disclosures required have been calculated by a qualified actuary based on the latest actuarial valuation at 5 April 2000 updated to 1 March 2003. The financial assumptions used at 1 March 2003 are:

	<i>1 March 2003</i>	<i>2 March 2002</i>
Rate of increase in pensionable salaries		
- open section	-	4.0%pa
- closed sections	3.5%pa	3.5%pa
LPI pension increases	2.5%pa	2.5%pa
Rate of price inflation	2.5%pa	2.5%pa
Discount Rate	5.5%pa	6.0%pa

The assets in the scheme and the expected rates of return were:

	<i>Long term rate of return expected at 1 March 2003 %</i>	<i>Value at 1 March 2003 £000</i>	<i>Long term rate of return expected at 2 March 2002 %</i>	<i>Value at 2 March 2002 £000</i>
Equities	8.0	9,348	8.0	11,981
Gilts / Bonds	4.95	2,221	5.6	2,672
Property	6.5	470	8.0	553
Cash	4.0	151	4.0	2
Total market value of assets		12,190		15,208
Present value of scheme liabilities		(18,956)		(16,357)
Deficit in the scheme		(6,766)		(1,149)
Related deferred tax asset		2,030		345
Net pension liability on an FRS 17 basis		(4,736)		(804)

Had FRS 17 been adopted in full, the following amounts would have been included in the financial statements:

	<i>1 March 2003</i>	<i>2 March 2002</i>
Net assets		
Net assets excluding FRS 17 liability	32,930	36,661
Pension liability on an FRS 17 basis	(4,736)	(804)
SSAP 24 exceptional charge	2,800	-
Related tax on SSAP 24 exceptional charge	(369)	-
Net assets including FRS 17 liability	30,625	35,857
Reserves		
Profit and loss reserve excluding pension liability	17,020	20,751
Pension liability on an FRS 17 basis	(4,736)	(804)
SSAP 24 exceptional charge	2,800	-
Related tax on SSAP 24 exceptional charge	(369)	-
Profit and loss reserve including pension liability	14,715	19,947

The Edinburgh Woollen Mill Limited
NOTES TO THE FINANCIAL STATEMENTS

At 1 March 2003

21. PENSION COMMITMENTS (CONTINUED)

(b) FRS17 Disclosures

Amount which would be charged to operating profit:

	<i>At 1 March 2003 £000</i>
Current service cost	567
Past service cost	-
Total charge to operating profit	567

Amount which would be included in other finance income:

	<i>At 1 March 2003 £000</i>
Expected return on pension scheme assets	1,160
Interest on pension scheme liabilities	(993)
Net Return	167

Amount which would be recognised in the statement of recognised gains and losses:

	<i>2002/03 52 weeks £000</i>
Actual return less expected return on pension scheme assets	(4,373)
Experience gains and losses arising on the scheme liabilities	118
Changes in the financial assumptions underlying the present value of the scheme liabilities	(1,326)
Actuarial loss recognised in the statement of total recognised gains and losses	(5,581)

The Edinburgh Woollen Mill Limited

NOTES TO THE FINANCIAL STATEMENTS

At 1 March 2003

21. PENSION COMMITMENTS (CONTINUED)

(b) FRS17 Disclosures

Deficit in scheme

	<i>At 1 March</i>
	<i>2003</i>
	<i>£000</i>
Deficit at 2 March 2002	(1,149)
Operating charge	(567)
Contributions	364
Other finance income	167
Actuarial loss	(5,581)
Deficit at 1 March 2003	(6,766)

The company has in conjunction with the actuary decided to increase its contribution rate to 20% of Pensionable Salary with effect from 1 March 2003, pending the results of the next formal actuarial valuation due to be carried out as at 5 April 2003.

History of experience gains and losses

	<i>2002/03</i>
	<i>52 weeks</i>
	<i>£000</i>
Difference between expected and actuarial return on scheme assets	(4,373)
Percentage of scheme assets	(35.9%)
Experience gains and losses on scheme liabilities	118
Percentage of present value of scheme liabilities	(0.6%)
Actuarial loss recognised in the Statement of Total Recognised Gains and Losses	(5,581)
Percentage of present value of scheme liabilities	(29.4%)

22. CONTINGENT LIABILITIES

In conjunction with certain other companies in the Group, the company has granted guarantees to secure the loans, overdrafts and committed revolving credit facilities of the companies in the group banking arrangements as follows:

	<i>1 March</i>	<i>2 March</i>
	<i>2003</i>	<i>2002</i>
	<i>£000</i>	<i>£000</i>
Term Loan	34,250	23,300
Mezzanine Loan	13,000	6,000
Subordinated Loan	18,000	-
Committed Revolving Credit Facilities	16,000	16,000
	<u>81,250</u>	<u>45,300</u>

The Edinburgh Woollen Mill Limited

NOTES TO THE FINANCIAL STATEMENTS

At 1 March 2003

23. PARENT COMPANY

The company's immediate parent company is EWM Holdings Limited, a company registered in England.

Until 15 November 2002 the company's ultimate parent company was EWM Group Limited, a company registered in England. On 15 November 2002, following the disposal of the company to Intercede 1816 Limited, (now renamed The Edinburgh Woollen Mill (Group) Limited), a company registered in England, the ultimate parent company became The Edinburgh Woollen Mill (Group) Limited.